

Message Text

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ACTION ARA-20

INFO OCT-01 ADP-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-15 USIA-15

AID-20 EB-11 SCEM-02 OMB-01 COME-00 INT-08 TRSE-00

CIEP-02 RSR-01 /134 W

----- 027597

R 071730Z AUG 73

FM AMEMBASSY GUATEMALA

TO SECSTATE WASHDC 0487

INFO AMEMBASSY SAN JOSE

AMEMBASSY MANAGUA

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

C O N F I D E N T I A L GUATEMALA 3792

E.O.11652: GDS

TAGS: ENRG, EGEN

SUBJECT: PETROLEUM SITUATION: CHEVRON IS APPROACHING MOMENT OF
DECISION

1. MANAGER OF CHEVRON'S GUATEMALAN DISTRIBUTION COMPANY, ALLEN
BAKER, CALLED ON ME AUG. 6 TO ALERT EMBASSY TO HIS HOME OFFICE'S
DECISION TO MAKE DECISION RE PETROLEUM SITUATION BE END OF AUGUST.
IN EXPLAINING THIS DECISION, BAKER FIRST REVIEWED RECENT BACKGROUND
OF PROBLEM: IN MID-JULY REPRESENTATIVES OF DISTRIBUTION COMPANIES
AND REFINERIES MET AT MINECON MOLINA'S REQUEST WITH MINISTRY OF
ECONOMY TEAM TO REVIEW PROBLEM (GUATEMALA2802). AT THAT MEETING
THEY WERE REQUESTED PRESENT RELEVANT DATA, WERE PROMISED MEETING
FOLLOWING WEEK DISCUSS TEAM'S FINDINGS AND WERE TOLD THAT SUCH
REVISED FINDINGS WOULD THEN BE PRESENTED TO MOLINA ALONG WITH
TEAM'S
RECOMMENDATIONS. THEY UNDERSTOOD THAT FINAL STEP WOULD BE FOR
INDUSTRY REPRESENTATIVES TO MEET WITH MOLINA TO WORK OUT MUTUALLY
AGREEABLE SETTLEMENT BASED ON THOSE RECOMMENDATIONS. BAKER CLAIMED
THAT THIS WORK PROGRAM HAS NOT BEEN FOLLOWED. TEAM HAS PRESENTED
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RECOMMENDATIONS TO MOLINA WITHOUT MEETING WITH REPRESENTATIVES AND,

REPORTEDLY, MOLINA PLANS TO ANNOUNCE GOG'S PETROLEUM PRICE POLICY AT END AUGUST WITHOUT PRIOR DISCUSSIONS WITH INDUSTRY. BECAUSE GOG HAS THUS NOT BEEN "NEGOTIATING" AS PROMISED, CHEVRON HAS CONCLUDED THAT GOVERNMENT IS STALLING, THAT MOLINA WILL MAKE UNILATERAL OFFER THAT WILL FALL SHORT OF INDUSTRY NEEDS, AND THAT COMPLAINTS WILL ONLY BRING FORTH PROMISE OF FURTHER DISCUSSIONS. ACCORDING TO BAKER, CHEVRON'S HOME OFFICE THEREFORE HAS BEGUN TO CONSIDER WHETHER THEY SHOULD STOP SHIPPING CRUDE TO THEIR GUATEMALAN REFINERY. HE CLAIMED THAT HE HAS PERSUADED HOME OFFICE TO WITHHOLD THAT DECISION UNTIL END AUGUST. UNLESS, MOLINA'S POLICY STATEMENT IS UNEXPECTEDLY POSITIVE, HOWEVER, BAKER BELIEVES CHEVRON WILL DECIDE TO ADVISE GOG THAT IT MUST HALT SHIPMENTS AFTER A GRACE PERIOD (HE SUGGESTED FOUR MONTHS).

2. WITH REGARD TO THE SPECIFICS OF CHEVRON'S DIFFICULTIES, BAKER SAID THAT THE CHEVRON/SHELL REFINERY'S LOSS IS CURRENTLY RUNNING ABOUT \$200,000 PER MONTH. UNTIL NOW REFINERY HAS COVERED THIS LOSS BY LIVING OFF ACCUMULATED CAUO RESERVES AND BY SHORTENING PAYMENT TERMS GIVEN CHEVRON AND SHELL DISTRIBUTING COMPANIES. THIS BUFFER NOW HAS BEEN PRACTICALLY ELIMINATED AND IN SEPTEMBER CHEVRON AND SHELL WILL HAVE TO START BRINGING IN \$200,000 PER MONTH TO KEEP REFINERY RUNNING. HENCE THE SIGNIFICANCE OF THE END AUGUST DECISION DATE. PROBLEM IS COMPOUNDED BY CHEVRON'S DECISION THAT NOT ONLY MUST LOSS BE COVERED BUT THAT THEY MUST MAKE 10 PERCENT PROFIT ON INVESTMENT. BAKER SAID HE IS CONCERNED ABOUT THIS LATTER DECISION BECAUSE THERE ARE RUMORS THAT MOLINA'S NEW POLICY WILL ONLY PROVIDE FOR A BREAK-EVEN POSITION. WITH REGARD TO PRICE INCREASES REQUIRED BY NEED COVER LOSS AND MAKE 10 PERCENT PROFIT, BAKER CALIMED THAT THERE MUST BE THREE CENT PER GALLON ACROSS BOARD INCREASE TO BREAK EVEN AND ADDITIONAL ONE CENT INCREASE (APPROXIMATE) TO MAKE PROFIT. DEGREE OF INCREASE FOR SPECIFIC PRODUCTS COULD VARY, OF COURSE, WITH GASOLINE TAKING LARGEST JUMP. BAKER SAID THAT PROBABLY GASOLINE WOULD HAVE TO BE INCREASED 7 TO 8 CENTS GALLON. WITH REGARD TO PREVIOUSLY SUGGESTED INTERMIM SOLUTION THAT DISTRIBUTING COMPANIES ABSORB PART OF REFINERIES' LOSS, BAKER CLAIMED THAT HIS LATEST CALCULATIONS RULE THIS OUT; THE CHEVRON DISTRIBUTION COMPANY REPORTEDLY IS MAKING PROFIT OF ONLY ZERO POINT THREE CENTS PER GALLON, WHICH OBVIOUSLY INSUFFICIENT MEET FOUR CENT GALLON INCREASE NEEDED.

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3. BAKER CONCLUDED BY SAYING HE WISHED TO BRING THESE FACTS TO MY ATTENTION IN ORDER TO PERMIT ME, IF OCCASION AROSE, TO STRESS TO GOG THAT POINT OF CRISIS FAST APPROACHING, THAT NO ONE IS BLUFFING NOW. HE SAID THAT HIS COMPANY DOES NOT EXPECT USG TWIST GOG ARMS BUT THAT HE HOPED THAT INFORMAL DISCUSSION MIGHT CLARIFY SITUATION.

COMMENT: I AM SURPRISED THAT GOG IS NOT "NEGOTIATING" WITH THE FIRMS. AS DEPARTMENT AWARE, MOLINA HAS TOLD ME THAT GOG

IS WILLING TO CONSIDER ALTERNATIVE SOLUTIONS TO THE JOINT PROBLEM,
JOINT IN THAT THE COMPANIES NEED PRICE RELIEF AND GOG NEEDS PRICE
CONTROL IN POLITICAL YEAR. MOLINA'S FAILURE TO PROCEED WITH
STEP BY STEP WORK PROGRAM PREVIOUSLY AGREED TO SUGGESTS THAT, AS
CHEVRON HAS CONCLUDED, GOG HAS DECIDED TO TRY TO RIDE SITUATION
OUT UNTIL AFTER ELECTION. PROBABLY GOG DOUBTS THAT COMPANIES
WILL TAKE ACTION, SUCH AS HALTING CRUDE SHIPMENTS, THAT IMPLY
DECISION TO WALK AWAY FROM MULTIMILLION DOLLAR INVESTMENTS. THIS
POSSIBLE CONCLUSION WOULD SEEM PLAUSIBLE, FROM GOG VIEWPOINT, GIVEN
DIFFERENCES BETWEEN CHEVRON AND TEXACO STANCES (CHEVRON UNTIL NOW
APPEARING MUCH MORE PATIENT THAN TEXACO) COMPANIES DO NOT PRESENT
UNIFIED POSITION, EITHER TO US OR TO GOG, BECAUSE OF FEARS OF USG
ANTI-TRUST ACTION. THIS SITUATION IS UNFORTUNATE SINCE IT APPEARS
TO HAVE PREVENTED COMPANIES FROM PRESENTING THEIR OWN SUGGESTED
INTERIM AND LONG TERM SOLUTIONS TO GOG. PASSAGE OF TIME, WHICH HAS
BROUGHT EVER HIGHER PRICES FOR CRUDE, HAS EXACERBATED ALL IMPORTANT
INTERIM SOLUTION. WHEREAS SEVERAL MONTHS AGO IT SEEMS THAT COMPANIES
MIGHT BE WILLING TO ACCEPT SOME SORT OF ARRANGEMENT THAT SPREAD LOSS
UNTIL AFTER ELECTIONS, THE HIGHER LOSS CALCULATED AT TODAY'S
CRUDE PRICES HAS MADE THEM LESS AMENABLE TO SUCH PROPOSALS. DATA
PRESENTED ABOVE, FOR EXAMPLE, INDICATED THAT CHEVRON/SHELL MUST NOW
CONTEMPLATE A \$1.4 MILLION CASH OUTLAY TO SIMPLY W
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